

Movants' HTA Exhibit 120

NO. 037 | MAY 1987

Governmental Accounting Standards Series

Concepts Statement No. 1 of the
Governmental Accounting
Standards Board

**Objectives of
Financial Reporting**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

help users make comparisons among governments, for example, comparisons of the costs of specific functions or components of revenue.

LIMITATIONS OF FINANCIAL REPORTING

69. Governmental financial reporting objectives are affected not only by the characteristics of the governmental environment and the needs of users, but also by limitations of the information that financial reporting can provide. Users must understand these limitations to assess how financial reports can satisfy their needs.

70. Some information provided by financial reporting is based on approximate measures of past events. Some information may not be readily available from current-period accounting records and, therefore, may be costly to provide. In addition, information appearing in financial reports is often based on judgments or estimates arising from applying certain rules or conventions. Information that appears in financial reports is generally quantifiable, either in terms of dollars for financial information or by some other common denominator for nonfinancial data (miles of streets repaired, for example).

71. Financial reporting is only one source of information needed by users to make decisions about state and local governments. Governmental entities—and those who have an interest in them—are affected by numerous factors that interact with each other in complex ways. To make decisions, users need to combine the information provided by financial reporting with other pertinent information, for example, on general economic conditions or political environment.

72. Users of state and local governmental financial reports are diverse; their needs may be equally diverse. As a result, it may be impossible to provide information in any one report sufficient to meet all the needs of all users. Consequently, the type and amount of information provided in general purpose financial reports generally should be based on the common needs of users.

73. The Board recognizes that an accountability perspective in financial reporting complicates the cost-benefit analysis of information because accountability reporting may be virtually without limits. (See paragraph 57.) Cost encompasses the cost of preparing, auditing, and using information. The Board intends to maintain a broad perspective of the meaning and implications of accountability reporting. At the same time, it recognizes that information considered important by some users is not important to others. Excessive detail may confuse rather than clarify. Cost-benefit relationships will be carefully

considered by the Board, during its research and due process, when establishing individual standards. In assessing costs and benefits, the Board will consider such factors as the ability of certain classes of users to obtain information by special request, the intensity of the needs of all groups of users, the risks or costs to users of not having certain types of information, and the relative costs and benefits considering the size or type of governmental entities involved.

FINANCIAL REPORTING OBJECTIVES

74. The following objectives of state and local governmental financial reporting take into consideration the influence of the governmental environment on reporting both governmental-type and business-type activities, and the information needs of all users. The objectives apply to financial reporting by all governmental entities, including separate reporting by subunits of those entities.

75. The Board has concluded that there are no major differences in the financial reporting objectives of governmental-type and business-type activities. This is because business-type activities, whether performed through a separate legally constituted entity or through a department of government, are nevertheless a part of government and are publicly accountable. To the extent that there are differences in financial reporting objectives, they tend to be differences in emphasis caused by differences in the operating environment of each. In addition, the Board believes that many governmental activities cannot be easily categorized into either governmental-type or business-type. Users of financial reports may require different kinds of information depending on where on the overall spectrum of governmental- to business-type activities a particular activity falls. As a result, the Board believes the objectives presented in paragraphs 77–79 may apply in differing degrees to the two types of activities. For example, because of the differences in environmental factors, budgetary comparisons or information about funds flows may be less important to business-type activities, but cost of services information may be more important. However, both types of information are useful in differing degrees for all activities. The Board will recognize these different needs in developing specific standards to implement these objectives.

76. Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions. The duty to be publicly accountable is more significant in governmental financial reporting than in business enterprise financial reporting. For this reason, the Board gave

considerable weight to the concept of accountability. It appears throughout the discussion of the governmental environment, and assessing accountability is a pervasive use of financial reporting as indicated in the section on uses of financial reports. Although it is referred to specifically only in paragraph 77, accountability is implicit in all of the listed objectives. The Board considers it to be the paramount objective from which all other objectives must flow.

77. *Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.*

- a. *Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues were not only sufficient to pay for current-year services, but also increased accumulated resources.*
- b. *Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.⁵*
- c. *Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within an entity and comparisons among similar entities. Information about physical resources (as discussed in paragraph 79b) should also assist in determining cost of services.*

78. *Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.*

- a. *Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.*
- b. *Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.*

⁵For some items it may be sufficient to demonstrate compliance by identifying items or instances of noncompliance.

- c. *Financial reporting should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.*

79. *Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.*

- a. *Financial reporting should provide information about the financial position and condition of a governmental entity. Financial reporting should provide information about resources and obligations, both actual and contingent, current and noncurrent. The major financial resources of most governmental entities are derived from the ability to tax and issue debt. As a result, financial reporting should provide information about tax sources, tax limitations, tax burdens, and debt limitations.*
- b. *Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources. This information should be presented to help users assess long- and short-term capital needs.*
- c. *Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.*

This Statement was adopted by the unanimous vote of the five members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*
Martin Ives, *Vice-Chairman*
Philip L. Defliese
W. Gary Harmer
Elmer B. Staats